SEKHUKHUNE
District Municipality

Sekhukhune District Municipality
Consolidated Annual Financial Statements
for the year ended 30 June 2018
Auditor General (SA)
Chartered Accountants (S.A.)
Registered Auditors

General Information

Nature of business and principal activities	District Municipality
The following is included in the scope of operation	Local Government - Provision of basic services to communities
Mayoral committee	
Executive Mayor	Cllr Ramaila KS
	Cllr Manamela MM (Council Speaker)
	Cllr Lepota TJ (Chief Whip)
	Cllr Sihlangu TL
	Cllr Mahlangu MF
	Cllr Nchabeleng TL
	Cllr Matlala MA
	Cllr Manganeng ML
	Cllr Mnisi SP
	Cllr Mmakola MY
	Cllr Nkosi SM
Councillors	Cllr Mafefe OH
	Cllr Mamekoa RS
	Cllr Sefala KRE
	Cllr Mhlanga CT
	Cllr Maila SM
	Cllr Matsetela ML
	Cllr Mohlala MC
	Cllr Moimane MT
	Cllr Mtsweni BW
Grading of local authority	Grade 4 Municipality
Chief Finance Officer (CFO)	Charles Malema Acting CFO
Accounting Officer	Norah T Maseko
Registered office	03 West Street Groblersdal 0470
Postal address	Private Bag X8611 Groblersdal 0470
Bankers	Standard Bank
Auditors	Auditor General (SA) Chartered Accountants (S.A.) Registered Auditors
Attorneys	A panel of appointed Attorneys (Machaba Attorneys, Ramontja Attorneys, Mateme Attorneys)
Other 1	

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The reports and statements set out below comprise the consolidated annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the consolidated annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements and was given unrestricted access to all financial records and related data.

The consolidated annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The consolidated annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's consolidated annual financial statements. The consolidated annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The consolidated annual financial statements set out on pages 6 to 49, which have been prepared on the going concern basis, were approved by the accounting officer on 30 Spetember 2018 and were signed on its behalf by:

Norah T Maseko
Municipal Manager

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2018.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 8 meetings were held.

Name of member	Number of meetings attended
Mr L Lankalebalela	8
Mr M Mokwele	8
Ms G Molepo	5
Ms M Ndlovhu	5
Ms T Mathabathe	3

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166 (2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the consolidated annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the accounting officer of the municipality during the year under review. It was however noted that the municipality conitinued not to spent on capital projects.

Evaluation of consolidated annual financial statements

The audit committee has:

- reviewed and discussed the audited consolidated annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the consolidated annual financial statements, and are of the opinion that the audited consolidated annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Audit Committee Report

Chairperson of the Audit Committee

Date:

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The municipality is engaged in provision of basic services (Mainly water and sanitation) and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached consolidated annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was 377 662 174 (2017: surplus 135 289 987).

2. Going concern

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on continued funding by National Government as per DORA over the MTREF period. There are no reasons to believe that funding may be stopped in the foreseeable future

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year except that a fraudulent activity involving an amount of R5.4million happened on the 05th of July 2018

4. Accounting policies

The consolidated annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Bankers

Standard bank has been appointed as the primary banker of the municipality during the year for a period of five years

6. Auditors

Auditor General (SA) will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	6	26 261 454	24 860 780
Receivables from exchange transactions	7&10	72 169 622	50 922 371
Receivables from non-exchange transactions	8&10	75 012 901	74 269 313
VAT receivable	9	58 063 508	39 604 833
Prepayments		18 797	16 212
Cash and cash equivalents	11	103 840 205	19 439 287
		335 366 487	**209 112 796**
Non-Current Assets			
Property, plant and equipment	3	2 946 449 091	2 611 985 464
Intangible assets	4	24 906	61 930
		2 946 473 997	**2 612 047 394**
Total Assets		**3 281 840 484**	**2 821 160 190**
Liabilities			
Current Liabilities			
Borrowings	14	276 925	968 724
Operating lease liability	5	353 853	2 020 117
Payables from exchange transactions	16	375 458 307	294 775 699
Consumer deposits	17	3 808 715	2 386 882
Unspent conditional grants and receipts	13	46 756 488	35 762 292
Provisions	15	10 805 113	9 247 492
Bank overdraft	11	-	488 657
		437 459 401	**345 649 863**
Non-Current Liabilities			
Borrowings	14	-	276 925
Provisions	15	43 013 495	51 805 498
		43 013 495	**52 082 423**
Total Liabilities		**480 472 896**	**397 732 286**
Net Assets		**2 801 367 588**	**2 423 427 904**
Reserves			
Revaluation reserve	12	100 000	-
Accumulated surplus		2 801 267 588	2 423 427 904
Total Net Assets		**2 801 367 588**	**2 423 427 904**

* See Note 37

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	72 405 138	51 463 574
Interest received - Debtors		8 348 404	9 069 981
Other income		2 662 720	1 788 838
Provision for landfill site written back		9 607 460	-
Creditors written off		87 737	-
Interest received	20	11 778 640	12 685 396
Actuarial gains		2 128 061	-
Total revenue from exchange transactions		**107 018 160**	**75 007 789**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	1 251 854 363	1 074 320 482
Fines, Penalties and Forfeits		-	27 816
Total revenue from non-exchange transactions		**1 251 854 363**	**1 074 348 298**
Total revenue	18	**1 358 872 523**	**1 149 356 087**
Expenditure			
Employee related costs	22	(330 078 822)	(309 149 480)
Remuneration of councillors	23	(17 171 151)	(13 872 638)
Board fees		(259 177)	(323 443)
Depreciation and amortisation	24	(76 163 915)	(78 016 232)
Impairment loss/ Reversal of impairments	25	(2 352 869)	(23 643 105)
Finance costs	26	(3 396 521)	(3 057 362)
Lease rentals on operating lease		(58 737 095)	(42 920 062)
Debt Impairment	27	(15 754 455)	(25 095 340)
Bulk purchases	28	(139 111 794)	(114 317 375)
Contracted services	29	(76 603 384)	(138 816 068)
Loss on disposal of assets and liabilities		(5 472 410)	(407 882)
General Expenses	30	(211 776 257)	(212 143 781)
Repairs and Maintanance		(44 332 499)	(52 303 332)
Total expenditure		**(981 210 349)**	**(1 014 066 100)**
Surplus for the year		**377 662 174**	**135 289 987**

* See Note 37

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	2 254 951 761	2 254 951 761
Adjustments			
Prior year adjustments	-	33 186 156	33 186 156
Balance at 01 July 2016 as restated*	**-**	**2 288 137 917**	**2 288 137 917**
Changes in net assets			
Surplus for the year	-	135 289 987	135 289 987
Total changes	-	135 289 987	135 289 987
Opening balance as previously reported	-	2 409 324 817	2 409 324 817
Adjustments			
Prior year adjustments	-	14 280 597	14 280 597
Restated* Balance at 01 July 2017 as restated*	**-**	**2 423 605 414**	**2 423 605 414**
Changes in net assets			
Surplus for the year	-	377 662 174	377 662 174
Revaluation of Land	100 000	-	100 000
Total changes	100 000	377 662 174	377 762 174
Balance at 30 June 2018	**100 000**	**2 801 267 588**	**2 801 367 588**
Note(s)	12		

* See Note 37

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		35 403 433	30 365 954
Grants		1 262 848 559	1 087 504 222
Interest income		11 778 640	12 685 396
Other receipts		24 267 399	13 341 659
		1 334 298 031	1 143 897 231
Payments			
Employee costs		(354 443 291)	(315 352 225)
Suppliers		(472 284 071)	(467 895 766)
Finance costs		(3 396 521)	(3 057 362)
		(830 123 883)	(786 305 353)
Net cash flows from operating activities	32	**504 174 148**	**357 591 878**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(415 935 636)	(340 816 464)
Proceeds from sale of property, plant and equipment	3	(2 380 213)	15 960
Net cash flows from investing activities		**(418 315 849)**	**(340 800 504)**
Cash flows from financing activities			
Repayment of borrowings		(968 724)	1 245 649
Net cash flows from financing activities		**(968 724)**	**1 245 649**
Net increase/(decrease) in cash and cash equivalents		**84 889 575**	**18 037 023**
Cash and cash equivalents at the beginning of the year		18 950 630	913 607
Cash and cash equivalents at the end of the year	11	**103 840 205**	**18 950 630**

* See Note 37

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	57 717 000	17 107 933	**74 824 933**	72 405 138	**(2 419 795)**	Note 47 - N1
Interest received (trading)	6 235 000	200 000	**6 435 000**	8 348 404	**1 913 404**	Note 47 - N2
Other income 1	7 379 917	(1 040 229)	**6 339 688**	2 662 720	**(3 676 968)**	Note 47 - N3
Other income 2	-	-	**-**	9 607 460	**9 607 460**	
Other farming income 1	-	-	**-**	87 737	**87 737**	
Interest received - investment	11 704 000	-	**11 704 000**	11 778 640	**74 640**	
Total revenue from exchange transactions	**83 035 917**	**16 267 704**	**99 303 621**	**104 890 099**	**5 586 478**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1 473 433 000	(26 607 838)	**1 446 825 162**	1 251 854 363	**(194 970 799)**	Note 45 N4
Total revenue	**1 556 468 917**	**(10 340 134)**	**1 546 128 783**	**1 356 744 462**	**(189 384 321)**	
Expenditure						
Personnel	(318 948 321)	(964 654)	**(319 912 975)**	(330 078 822)	**(10 165 847)**	N5
Remuneration of councillors	(16 234 000)	-	**(16 234 000)**	(17 171 151)	**(937 151)**	N5
Board fees	(366 188)	-	**(366 188)**	(259 177)	**107 011**	
Depreciation and amortisation	(63 600 000)	2 020 000	**(61 580 000)**	(76 163 915)	**(14 583 915)**	N6
Impairment loss/ Reversal of impairments	-	-	**-**	(2 352 869)	**(2 352 869)**	
Finance costs	(1 100 000)	-	**(1 100 000)**	(3 396 521)	**(2 296 521)**	
Lease rentals on operating lease	(48 632 076)	(14 600 000)	**(63 232 076)**	(58 737 095)	**4 494 981**	
Debt Impairment	(3 800 000)	550 000	**(3 250 000)**	(15 754 455)	**(12 504 455)**	N7
Bulk purchases	(98 560 000)	(32 000 000)	**(130 560 000)**	(139 111 794)	**(8 551 794)**	N8
Contracted Services	(120 870 000)	22 728 725	**(98 141 275)**	(76 603 384)	**21 537 891**	N9
Transfers and Subsidies	(3 000 000)	-	**(3 000 000)**	-	**3 000 000**	
General Expenses	(194 988 305)	(23 498 146)	**(218 486 451)**	(256 108 756)	**(37 622 305)**	N10
Total expenditure	**(870 098 890)**	**(45 764 075)**	**(915 862 965)**	**(975 737 939)**	**(59 874 974)**	
Operating surplus	**686 370 027**	**(56 104 209)**	**630 265 818**	**381 006 523**	**(249 259 295)**	
Loss on disposal of assets and liabilities	-	-	**-**	(5 472 410)	**(5 472 410)**	
Actuarial gains/losses	-	-	**-**	2 128 061	**2 128 061**	
	-	**-**	**-**	**(3 344 349)**	**(3 344 349)**	
Surplus before taxation	**686 370 027**	**(56 104 209)**	**630 265 818**	**377 662 174**	**(252 603 644)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**686 370 027**	**(56 104 209)**	**630 265 818**	**377 662 174**	**(252 603 644)**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8 550 000	18 400 000	**26 950 000**	26 261 454	**(688 546)**	
Receivables from exchange transactions	47 369 000	(1 035 615)	**46 333 385**	72 169 622	**25 836 237**	
Receivables from non-exchange transactions	79 875 000	-	**79 875 000**	75 012 901	**(4 862 099)**	
VAT receivable	-	-	**-**	58 063 508	**58 063 508**	
Prepayments	-	-	**-**	18 797	**18 797**	
Cash and cash equivalents	73 631 000	2 000 000	**75 631 000**	103 840 205	**28 209 205**	
	209 425 000	**19 364 385**	**228 789 385**	**335 366 487**	**106 577 102**	
Non-Current Assets						
Property, plant and equipment	3 179 633 000	4 149 000	**3 183 782 000**	2 946 449 091	**(237 332 909)**	
Intangible assets	-	-	**-**	24 906	**24 906**	
	3 179 633 000	**4 149 000**	**3 183 782 000**	**2 946 473 997**	**(237 308 003)**	
Total Assets	**3 389 058 000**	**23 513 385**	**3 412 571 385**	**3 281 840 484**	**(130 730 901)**	
Liabilities						
Current Liabilities						
Borrowings	-	-	**-**	276 925	**276 925**	
Operating lease liability	-	-	**-**	353 853	**353 853**	
Payables from exchange transactions	168 045 000	-	**168 045 000**	375 458 307	**207 413 307**	
Consumer deposits	-	-	**-**	3 808 715	**3 808 715**	
Unspent conditional grants and receipts	37 801 000	5 000 385	**42 801 385**	46 756 488	**3 955 103**	
Provisions	-	38 700 000	**38 700 000**	10 805 113	**(27 894 887)**	
	205 846 000	**43 700 385**	**249 546 385**	**437 459 401**	**187 913 016**	
Non-Current Liabilities						
Provisions	31 251 000	-	**31 251 000**	43 013 495	**11 762 495**	
Total Liabilities	**237 097 000**	**43 700 385**	**280 797 385**	**480 472 896**	**199 675 511**	
Net Assets	**3 151 961 000**	**(20 187 000)**	**3 131 774 000**	**2 801 367 588**	**(330 406 412)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	**-**	100 000	**100 000**	
Accumulated surplus	3 151 961 000	(20 187 000)	**3 131 774 000**	2 801 267 588	**(330 506 412)**	
Total Net Assets	**3 151 961 000**	**(20 187 000)**	**3 131 774 000**	**2 801 367 588**	**(330 406 412)**	

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

The consolidated annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these consolidated annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These consolidated annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These consolidated annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value as determined by the local municipalities in the approved valuation rolls.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

1.5 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indifinite lifespan
Buildings	Straight line	15 to 30 years
Plant and machinery	Straight line	3 to 10 years
Furniture and fixtures	Straight line	10 years
Motor vehicles	Straight line	5 to 7 years
Office equipment	Straight line	3 to 10 years
IT equipment	Straight line	5 years
Computer software	Straight line	5 years
Leasehold improvements	Straight line	3 to 5 years
Infrastructure - Water, reservoris and reticulation	Straight line	5 to 80 years
Specialised vehicles	Straight line	10 to 20 years
Bins and containers	Straight line	3 to 7 years
Communication equipment	Straight line	15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Accounting Policies

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories for consumables is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

The cost of inventories for Operations and Maintanance materials not bought through normal stores system are assigned using the first-in, first-out (FIFO) formula..

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

1.8 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

1.9 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.10 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

1.10 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.11 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.14 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

1.18 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The consolidated annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.20 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Accounting Policies

1.20 Related parties (continued)

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.21 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2099	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2099	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2099	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2099	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

Notes to the Consolidated Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Plant and machinery	1 569 640	(1 206 984)	362 656	1 569 640	(1 069 740)	499 900
Furniture and fixtures	14 164 325	(6 076 306)	8 088 019	17 006 177	(7 619 093)	9 387 084
Motor vehicles	5 038 827	(3 718 861)	1 319 966	4 610 599	(3 145 130)	1 465 469
Office equipment	94 648	(89 285)	5 363	94 648	(70 414)	24 234
IT equipment	118 369	(78 125)	40 244	118 369	(54 515)	63 854
Leasehold improvements	200 300	(44 974)	155 326	200 300	(24 344)	175 956
Infrastructure	65 704 027	(30 728 824)	34 975 203	65 704 027	(27 502 956)	38 201 071
Land and Community Assets	15 913 407	(337 268)	15 576 139	20 444 956	(2 424 902)	18 020 054
Other property, plant and equipment	8 214 833	-	8 214 833	9 571 023	-	9 571 023
Communication equipment	161 404	(75 292)	86 112	161 404	(64 561)	96 843
Wastewater network	44 950 664	(3 347 455)	41 603 209	43 208 666	(21 838)	43 186 828
Water network	1 512 417 445	(76 871 895)	1 435 545 550	1 295 692 918	(9 541 638)	1 286 151 280
Assets under construction (WIP)	1 400 476 471	-	1 400 476 471	1 205 141 868	-	1 205 141 868
Total	**3 069 024 360**	**(122 575 269)**	**2 946 449 091**	**2 663 524 595**	**(51 539 131)**	**2 611 985 464**

Notes to the Consolidated Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Revaluations	Depreciation	Impairment loss	Total
Plant and machinery	499 900	-	-	-	-	(137 244)	-	362 656
Furniture and Equipment	9 387 084	2 383 253	(1 908 444)	-	-	(1 773 874)	-	8 088 019
Motor vehicles	1 465 469	428 228	-	-	-	(573 731)	-	1 319 966
Office equipment	24 234	-	-	-	-	(18 871)	-	5 363
IT equipment	63 854	-	-	-	-	(23 610)	-	40 244
Leasehold improvements	175 956	-	-	-	-	(20 630)	-	155 326
Roads Infrastructure	38 201 071	-	-	-	-	(3 225 868)	-	34 975 203
Land and Community Assets	18 020 054	-	-	(2 518 613)	100 000	(25 302)	-	15 576 139
Buildings	9 571 023	-	-	-	-	(1 356 190)	-	8 214 833
Communication equipment	96 843	-	-	-	-	(10 731)	-	86 112
Wastewater network	43 186 828	-	-	1 741 998	-	(2 718 188)	(607 429)	41 603 209
Water network	1 286 151 280	10 003 733	(1 183 753)	208 562 384	-	(66 242 654)	(1 745 440)	1 435 545 550
Assets under construction (WIP)	1 205 141 868	405 638 985	-	(210 304 382)	-	-	-	1 400 476 471
	2 611 985 464	**418 454 199**	**(3 092 197)**	**(2 518 613)**	**100 000**	**(76 126 893)**	**(2 352 869)**	**2 946 449 091**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
Bins and emergency equipment	666 953	-	-	-	-	(167 053)	-	499 900
Furniture and equipment	8 834 379	2 144 987	-	-	-	(1 592 282)	-	9 387 084
Motor vehicles	2 007 295	-	-	-	-	(541 826)	-	1 465 469
Office equipment	40 429	-	(2 679)	-	-	(13 516)	-	24 234
IT equipment	80 764	-	-	-	-	(16 910)	-	63 854
Leasehold improvements	21 585	175 000	-	-	-	(20 629)	-	175 956
Roads Infrastructure	41 431 031	-	-	-	-	(3 229 960)	-	38 201 071
Land and Community Assets	16 726 381	-	-	-	1 500 000	(206 327)	-	18 020 054
Buildings	11 089 970	-	-	-	-	(1 518 947)	-	9 571 023
Communication equipment	107 603	-	-	-	-	(10 760)	-	96 843
Wastewater network	44 285 994	-	-	1 754 386	-	(2 637 276)	(216 276)	43 186 828
Water network	1 096 365 115	10 818 569	(421 163)	250 373 723	-	(68 026 432)	(2 958 532)	1 286 151 280
Assets under construction (WIP)	1 208 535 274	269 202 831	-	(252 128 109)	-	-	(20 468 128)	1 205 141 868
	2 430 192 773	**282 341 387**	**(423 842)**	**-**	**1 500 000**	**(77 981 918)**	**(23 642 936)**	**2 611 985 464**

Pledged as security

No assets are pledged as security as at yeat end:

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Infrastructure	1 367 482 815	1 172 148 213

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

3. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	44 332 499	52 303 332

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	185 122	(160 216)	24 906	185 122	(123 192)	61 930

Reconciliation of intangible assets - 2018

	Opening balance	**Amortisation**	**Total**
Computer software	61 930	(37 024)	24 906

Reconciliation of intangible assets - 2017

	Opening balance	**Amortisation**	**Total**
Computer software	97 140	(35 210)	61 930

5. Operating lease asset (accrual)

Current liabilities	(353 853)	(2 020 117)

The lease liability is due to payments on leases to be made in the future years as a result of straight lining operating leases on office rentals and fleet

6. Inventories

Water invetory	1 078 457	851 011
Consumable stores	2 927 818	2 614 243
Maintanance Materials	22 255 179	21 395 526
	26 261 454	**24 860 780**
Inventories recognised as an expense during the year	15 142 499	1 386 411

7. Receivables from exchange transactions

Trade debtors	72 169 622	50 922 371

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

7. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2018, trade and other receivables of 15 754 455 (2017: 25 095 340) were impaired and provided for.

The amount of the provision was (85 915 070) as of 30 June 2018 (2017: 70 160 616).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	70 160 616	71 194 232
Provision for impairment	15 754 455	25 095 340
Amounts written off as uncollectible	-	(26 128 956)
	85 915 071	**70 160 616**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note).

8. Receivables from non-exchange transactions

Government grants - RBIG Funds	47 673 673	44 990 086
Public contributions and subsidies	-	(842 510)
Guarantees	27 665 230	27 665 230
Sundry debtors	(326 002)	2 456 507
	75 012 901	**74 269 313**

Guarantees

Financial guarantee contract details are as follow:

A bank guarantee amounting to R150 990 959 for MIG grant was made for purchase of materials and construction of VIP toilets. The payment was released by the bank after the municipality having confirmed the work done. The transfer is classified as a debtor. The amount remaining reepresents the balance outstanding after part materials delivered and work completed which is equivalent to amount released. The term of the guarantee is up to the completion of project and release of final completion certificate. Interest and cost of guarantees are borne by the service provider. We are currently in the process of redeeming balance after the projects are completed and retention money released when final completion certificates are issued.

9. VAT receivable

VAT	58 063 508	39 604 833

The VAT receivable is mainly made up of outstanding refunds at year end, penalties on disallowed VAT that was paid after year end and VAT on debtors and creditors

10. Consumer debtors disclosure

Gross balances		
Consumer debtors - Water	140 853 461	107 821 985
Consumer debtors - Sewerage	17 231 231	13 261 000
	158 084 692	**121 082 985**

Less: Allowance for impairment		
Consumer debtors - Water	(76 636 242)	(62 579 188)
Consumer debtors - Sewerage	(9 278 828)	(7 581 426)
	(85 915 070)	**(70 160 614)**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

10. Consumer debtors disclosure (continued)

Net balance		
Consumer debtors - Water	64 158 794	45 242 797
Consumer debtors - Sewerage	8 010 828	5 679 574
	72 169 622	**50 922 371**

Water		
Current (0 -30 days)	8 918 591	5 254 795
31 - 60 days	6 560 541	10 633 254
61 - 90 days	2 920 798	2 987 663
91 - 120 days	5 615 893	3 121 069
+360 days	82 177 714	86 713 944
	106 193 537	**108 710 725**

Sewerage		
Current (0 -30 days)	1 013 025	583 866
31 - 60 days	745 184	1 181 473
61 - 90 days	331 762	331 963
91 - 120 days	637 885	346 785
+360 days	9 334 217	9 928 173
	12 062 073	**12 372 260**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	18 710 837	477 890
Short-term deposits	85 129 368	18 961 397
Bank overdraft	-	(488 657)
	103 840 205	**18 950 630**

Current assets	103 840 205	19 439 287
Current liabilities	-	(488 657)
	103 840 205	**18 950 630**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	**30 June 2017**	**30 June 2016**	**30 June 2018**	**30 June 2017**	**30 June 2016**
Standard bank - Primary Account	18 497 863	(1 495 480)	35 667 070	18 248 105	(488 657)	(44 880 542)
FNB Call account	32 727 255	10 530 179	-	32 727 255	10 530 179	-
Nedbank call account	-	-	10 791 348	42 271	-	11 049 160
ABSA Call account	-	251 435	442 560	87 300	252 857	445 033
Standard bank call account	52 272 542	8 178 362	34 299 956	52 272 542	8 178 362	34 299 956
ABSA Chq account - SDA	462 732	477 890	1 888 098	462 732	477 890	1 888 098
Total	**103 960 392**	**17 942 386**	**83 089 032**	**103 840 205**	**18 950 631**	**2 801 705**

12. Revaluation reserve

Revaluation of land	100 000	-

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Municipal Infrastructure Grant (MIG)	36 834 705	-
Water Services Infrastructure Grant (WSIG)	8 184 087	33 540 616
Rural Roads Asset Management System Grant (RRAMS)	-	483 980
Industrial Development Corporation (IDC)	1 737 696	1 737 696
	46 756 488	**35 762 292**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

14. Borrowings

At amortised cost		
Loan - Anglo Platinum loan	276 925	1 245 649
Unsecured loan bearing interest at 8%		

An unsecured loan of R 16 280 716 bearing interest at a fixed rate of 8%, repayable semi-annually in equal installments of capital, with interest on the reducing balance. The loan will be fully payable on 31st December 2018

Non-current liabilities		
At amortised cost	-	276 925

Current liabilities		
At amortised cost	276 925	968 724

Notes to the Consolidated Annual Financial Statements

15. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Employee benefit vesting	Change in discount factor	Acturial gains and losses	Total
Environmental rehabilitation - Landfill site	21 980 081	-	(9 847 444)	-	309 336	-	12 441 97
Unused leave provision	25 350 539	3 354 433	-	(2 573 466)	2 209 544	(2 304 921)	26 036 12
Long service award provision	13 722 370	1 420 626	-	(1 085 670)	1 106 320	176 860	15 340 50
	61 052 990	**4 775 059**	**(9 847 444)**	**(3 659 136)**	**3 625 200**	**(2 128 061)**	**53 818 60**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	19 098 846	1 266 160	1 615 075	21 980 081
Unused leave provision	22 265 956	2 779 701	304 882	25 350 539
Long service award provision	12 016 406	722 300	983 664	13 722 370
	53 381 208	**4 768 161**	**2 903 621**	**61 052 990**

	2018	2017
Non-current liabilities	43 013 495	51 805 498
Current liabilities	10 805 113	9 247 492
	53 818 608	**61 052 990**

Environmental rehabilitation provision

The provision is the estimate for the closure and capping costs of Makhuduthamaga landfill site at closure in terms of the minimum requirements for Waste Disposal by landfill (Department of Water Affairs and Forestry, 1998 - DWA MRWL).
The remaining life of the landfill site is estimated at 7 years.

A discount rate of 9.6% and average inflation rate of 6.05% was used as key assumptions resulting in the net effective discount rate of 3.63%.

The landfill site for Malogeng was transferred to FetakgomoTubatse Local Municipality from the 01st of July 2017.

Unused leave provision

The provision is the value of unused leave liability at year end. The following assumptions were used in the determination of the leave liability:

The discount rate of 9.24% and the general salary inflation of 6.64% resulting in net effective discount rate of 2.44%. The average retirement age was assumed to be 60 years.

Long service awards provision

The provision is the value of long service award liability that is expected to be payable under the municipality's current arrangements and as per condition of service approved by SALGBC. The following assumptions were used in determining the long service award liability:

782 employees were eligible for long service awards. The discount rate of 8.44% and the general salary inflation of 6.07% resulting in net effective discount rate of 2.23%. The average retirement age was assumed to be 60 years.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

16. Payables from exchange transactions

Trade payables	215 206 790	146 357 962
Other payables	(393 843)	1 389 576
Retention and sessions	150 726 759	135 917 044
Deposits received	2 182 082	3 757 519
Bonus provision	7 480 955	7 051 361
Leave accrual	255 564	214 500
Other sundry creditors	-	87 737
	375 458 307	**294 775 699**

17. Consumer deposits

Water	3 808 715	2 386 882

18. Revenue

Service charges	72 405 138	51 463 574
Interest received (trading)	8 348 404	9 069 981
Other income	2 662 720	1 788 838
Provision and creditors written off	9 607 460	-
Other farming income 1	87 737	-
Interest received - investment	11 778 640	12 685 396
Government grants & subsidies	1 251 854 363	1 074 320 482
Fines, Penalties and Forfeits	-	27 816
	1 356 744 462	**1 149 356 087**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	72 405 138	51 463 574
Interest received (trading)	8 348 404	9 069 981
Other income	2 662 720	1 788 838
Provision for landfill written back	9 607 460	-
Other farming income 1	87 737	-
Interest received - investment	11 778 640	12 685 396
	104 890 099	**75 007 789**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	1 251 854 363	1 074 320 482
Fines, Penalties and Forfeits	-	27 816
	1 251 854 363	**1 074 348 298**

19. Service charges

Sale of water	63 471 682	40 254 375
Sewerage and sanitation charges	8 933 456	11 209 199
	72 405 138	**51 463 574**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

20. Investment revenue

Interest revenue		
Short term investments	9 546 482	12 685 396
Primary bank account	2 232 158	-
	11 778 640	**12 685 396**

Figures in Rand	2018	2017

21. Government grants and subsidies

Operating grants		
Equitable share	658 579 596	600 889 750
Department of Health	10 031 000	9 534 000
Expanded Public Works Programme Grant (EPWP)	1 085 000	1 539 000
Finance Management Grant (FMG)	1 250 000	1 250 000
Municipal Systems Improvement Grant (MSIG)	-	65 563
Rural Roads Assets Management Grant (RRAMS)	2 286 000	1 636 020
IDC	-	1 410 543
	673 231 596	**616 324 876**
Capital grants		
Municipal Infrastructure Grant (MIG)	427 207 295	331 184 150
Rural Bulk Infrastructure Grant (RBIG)	64 599 559	96 352 072
Water Services Infrastructure Grant (WSIG)	86 815 913	30 459 384
	578 622 767	**457 995 606**
	1 251 854 363	**1 074 320 482**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	586 153 342	462 486 189
Unconditional grants received	668 610 596	610 423 750
	1 254 763 938	**1 072 909 939**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	16 183 843
Current-year receipts	464 042 000	331 184 000
Conditions met - transferred to revenue	(427 207 295)	(331 184 000)
Deducted from Equitable Shares	-	(16 183 843)
	36 834 705	**-**

Conditions still to be met - remain liabilities (see note 13).

Expanded Public Works Programme (EPWP)

Current-year receipts	1 085 000	1 539 000
Conditions met - transferred to revenue	(1 085 000)	(1 539 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 13).

Water Services Infrastrucuture Grant (WSIG)

Balance unspent at beginning of year	33 540 616	-
Current-year receipts	95 000 000	64 000 000
Conditions met - transferred to revenue	(86 815 913)	(30 459 384)
Amount deducted from Equitable Shares	(33 540 616)	-

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

21. Government grants and subsidies (continued)

	8 184 087	**33 540 616**

Conditions still to be met - remain liabilities (see note 13).

Finance Management Grant (FMG)

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Rural Roads Assets Management System Grant (RRAMS)

Balance unspent at beginning of year	483 980	-
Current-year receipts	2 286 000	2 120 000
Conditions met - transferred to revenue	(2 286 000)	(1 636 020)
Amount deducted from Equitable Shares	(483 980)	-
	-	**483 980**

Conditions still to be met - remain liabilities (see note 13).

Water Services Operating Grant (WSOG)

Balance unspent at beginning of year	-	3 180 907
Amount deducted from Equitable Shares	-	(3 180 907)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	-	65 563
Conditions met - transferred to revenue	-	(65 563)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Regional Bulk Infrastructure Grant (RBIG)

Balance unspent at beginning of year	-	(47 139 224)
Current-year receipts	-	98 501 210
Conditions met - transferred to revenue	-	(96 352 071)
Total Unspent (Overspent)	-	44 990 085

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Industrial Development Corporation (IDC)

Balance unspent at beginning of year	1 737 696	3 148 239
Conditions met - transferred to revenue	-	(1 410 543)
	1 737 696	**1 737 696**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

21. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 03 of 2017), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

22. Employee related costs

Basic	210 406 488	195 948 592
Medical aid - company contributions	11 042 605	15 541 436
UIF	1 442 515	1 370 659
SDL	2 620 987	2 390 999
Other payroll levies	73 870	73 467
Leave pay provision charge	6 874 090	14 895 464
Group life	2 002 777	802 753
Pension Fund	31 816 464	29 513 705
Travel, motor car, accommodation, subsistence and other allowances	26 446 331	26 401 896
Overtime payments	20 692 044	17 431 775
Long-service awards	1 130 441	-
Housing benefits and allowances	1 431 515	2 311 318
Cellphone allowance	2 653 823	1 472 980
Shift and standby allowance	11 062 236	994 436
Uniform allowance	80 000	-
	329 776 186	**309 149 480**

Remuneration of municipal manager

Annual Remuneration	1 123 774	1 281 150
Car Allowance	240 000	196 323
Contributions to UIF, Medical and Pension Funds	111 763	171 280
Other allowances	59 738	24 153
Leave payout	-	185 831
	1 535 275	**1 535 275**

Remuneration of chief finance officer

Annual Remuneration	180 629	-
Car Allowance	72 258	-
Contributions to UIF, Medical and Pension Funds	41 598	-
Other	10 232	-
	304 717	**-**

The CFO was appointed for three months during the financial year

Director - Corporate Services

Annual Remuneration	625 620	1 026 239
Car Allowance	70 000	177 624
Contributions to UIF, Medical and Pension Funds	46 017	92 062
Other	144 800	148 020
Leave pay out	129 579	112 947
	1 016 016	**1 556 892**

The Director Corporate Services resigned during the year and the position remained vacant at year end

Director Community Services

Annual Remuneration	1 353 527	1 031 543
Car Allowance	60 000	108 891
Contributions to UIF, Medical and Pension Funds	123 716	141 006
Other	51 825	24 480
	1 589 068	**1 305 920**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

22. Employee related costs (continued)

Director Planning and Economic Development

Annual Remuneration	990 343	787 227
Car Allowance	156 000	184 048
Contributions to UIF, Medical and Pension Funds	109 709	52 212
Leave payout	-	76 375
Other	33 961	19 262
	1 290 013	**1 119 124**

Chief Audit Executive

Annual Remuneration	1 290 204	974 157
Car Allowance	120 000	178 393
Contributions to UIF, Medical and Pension Funds	159 837	159 335
Other	37 373	23 670
	1 607 414	**1 335 555**

23. Remuneration of councillors

Executive Mayor	948 710	13 872 638
Mayoral Committee Members	5 833 600	-
Speaker	807 695	-
Councillors	9 581 146	-
	17 171 151	**13 872 638**

24. Depreciation and amortisation

Property, plant and equipment	76 163 915	78 016 232

25. Impairment of assets

Impairments		
Property, plant and equipment	2 352 869	23 643 105

The municipality has assessed the slow moving projects and immovable assets for existence of impairment conditions. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]

26. Finance costs

Bank	-	3 057 362
Current borrowings	80 657	-
Fair value adjustments: Notional interest	3 315 864	-
	3 396 521	**3 057 362**

27. Debt impairment

Debt impairment	15 754 455	25 095 340

28. Bulk purchases

Water	139 111 794	114 317 375

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

29. Contracted services

VIP Sanitation programme	76 603 384	138 816 068

30. General expenses

Accounting fees	-	166 667
Advertising	1 116 479	562 586
Auditors remuneration	5 824 988	6 599 788
Bank charges	355 903	265 228
Computer expenses	-	184 702
Consulting and professional fees	31 169 067	23 186 286
Entertainment	39 543	44 838
Insurance	2 251 099	3 091 799
IT expenses	41 867	-
Fuel and oil	11 497 776	10 430 984
Repairs and maintenance	43 204 298	52 314 573
Security (Guarding of municipal property)	31 590 667	28 405 980
Software expenses	2 854 391	2 962 205
Subscriptions and membership fees	12 888	40 150
Telephone and fax	4 073 863	5 190 574
Transport and freight	514 164	-
Training	-	97 000
Travel - local	1 162 138	3 147 908
Electricity	41 115 929	42 718 926
Other expenses	41 800 221	47 114 074
Tankering costs	37 483 475	37 922 845
	256 108 756	**264 447 113**

31. Auditors' remuneration

Fees	4 791 216	5 560 972
Consulting	1 033 772	1 038 816
	5 824 988	**6 599 788**

32. Cash generated from operations

Surplus	377 662 174	135 289 987
Adjustments for:		
Depreciation and amortisation	76 163 915	78 016 232
Gain on sale of assets and liabilities	5 472 410	407 882
Impairment deficit	2 352 869	23 643 105
Debt impairment	15 754 455	25 095 340
Movements in operating lease assets and accruals	(1 666 264)	2 020 117
Movements in provisions	(7 234 382)	7 671 782
Other non-cash items	177 562	518 709
Changes in working capital:		
Inventories	(1 400 674)	(12 605 764)
Receivables from exchange transactions	(21 247 251)	3 996 790
Consumer debtors	(15 754 455)	-
Other receivables from non-exchange transactions	(743 588)	2 173 645
Prepayments	(2 585)	(16 212)
Payables from exchange transactions	80 682 608	70 094 460
VAT	(18 458 675)	6 410 143
Unspent conditional grants and receipts	10 994 196	14 594 283
Consumer deposits	1 421 833	281 379
	504 174 148	**357 591 878**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

33. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	72 169 622	72 169 622
Other receivables from non-exchange transactions	77 922 477	77 922 477
Cash and cash equivalents	103 840 205	103 840 205
Prepayments	18 797	18 797
VAT Receivables	58 063 508	58 063 508
	312 014 609	**312 014 609**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	376 607 385	376 607 385

2017

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	51 238 526	51 238 526
Other receivables from non-exchange transactions	75 111 823	75 111 823
Cash and cash equivalents	19 439 287	19 439 287
VAT Receivables	39 604 833	39 604 833
	185 394 469	**185 394 469**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	286 315 033	286 315 033

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

34. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	415 276 181	251 508 503
Total capital commitments		
Already contracted for but not provided for	415 276 181	251 508 503

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	31 082 186	57 603 011
- in second to fifth year inclusive	21 505 184	-
	52 587 370	**57 603 011**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

35. Contingencies

Litigation is in the process against the municipality relating to a dispute with awarding of contracts, payment to contractors and dismissed employees to the value of 129 993 768 . The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the cases should be resolved within the next two years.

The labour matters against the municipality amounted to R 52 916 828.16 and civil cases for unfair SCM processes and contracts disputes amounted to R 77 076 939.84.

Contingent assets

Civil proceedings have commenced to recover from previous employees an amount of R341 981 as a result of material losses incurred in the previous years. . According to the entity's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

36. Related parties

Relationships	
Accounting Officer and Senior Management	Refer to Note 23 for disclosure of amounts paid
Councillors	Refer to note 23 for disclosure of amounts paid

Related party balances

37. Prior period errors

The loan repayment schedule erroneosly did not take into account the reduce last instalement (The amortisation schedule was prepared with the assumptions of equal bi annual instalments

Completed assets in the prior year were not capitalised and depreciation not calculated. Both the WIP was overstated and PPE classes understated

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

37. Prior period errors (continued)

Electricity purchases was incorrectly classified as bulk purchases in the prior year and was corrected during mSCOA implementation

Revenue and debtors overstated with an amount of R 316 154.49 as subsidy debits were not accounted for correctly

Prior year creditors understated with accruals at year end not accounted for. Accruals and operational exenditure under stated by R9 041 720.53

The WIP amount was understated with an amount of R32 993 655.47 when compared to supporting documentation

Assets disposed in the previous year with a carrying value of R2 679.23 not accounted for in the accounting records.

The trade payables to the amount of R28 060 correctly accounted for as a commitment.

The entity has incorrectly accounted for insurance prepais expense as expense in he previous year. The correction resulted in the adjustment of R16 212 and the accumulated surplus adjusted with an amount of R14 885

The correction of the error(s) results in adjustments as follows:

	2018	2017
Statement of financial position		
WIP Understatement	-	32 993 655
WIP	-	(184 634 084)
Water network	-	184 634 084
Borrowings	-	194 541
Accounts receivables	-	316 154
Trade payables	-	(9 069 781)
PPE	-	(2 679)
Prepayment	-	16 212
Statement of financial performance		
Depreciation expense	-	9 563 476
Finance costs	-	15 875
Revenue	-	(316 154)
Repairs and mainatance (Creditors understated)	-	695 467
Bulk purchases	-	(42 716 960)
General expenses (Electricity)	-	42 716 960
Bulk purchases (Creditors understated)	-	6 665 964
General expenses (Creditors understated)	-	1 674 574

38. Comparative figures

Certain comparative figures have been reclassified.

39. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2018	2017

40. Going concern

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

41. Events after the reporting date

No material non adjusting events occured after the reporting date:

- .

42. Unauthorised expenditure

Overspending on the budget	54 159 575	97 440 000
Authorised by council	-	(97 440 000)
	54 159 575	**-**

The unauthorisd expediture is due to over spending in IWS, Speakers office, MM office and Community services.

43. Fruitless and wasteful expenditure

Opening balance	23 461 020	1 659 827
Expenditure during the year	140 038	21 801 793
Expenditure recovered	(17 255 971)	-
Written off	(415 527)	-
	5 929 560	**23 461 620**

The balance of the expenditure not recoveed and condoned is for SARS interest and penalties and the municipality is in the process of engaging SARS to waive the interest.

The expenditure has been referred to MPAC for further investigation

The amount of R100 274.81 incurred during the year is for interest charged on overdue accounts

44. Irregular expenditure

Opening balance	1 192 547 322	1 072 175 998
Add: Irregular Expenditure - current year	26 621 779	120 371 324
Less: Amounts written off as irrecoverable	(1 067 327 739)	-
	151 841 362	**1 192 547 322**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Non compliance to regulation 38 of the MFMA (Proof of municipal rates for directors)	Reported to council and referred to MPAC for investigation	26 621 779

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3 182 130	3 368 716
Amount paid - current year	(3 182 130)	(3 368 716)
	-	-

Figures in Rand	2018	2017

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material losses (Water distribution)

KL of water billed	15 749 310	20 720 765
Value of water losses during the year	97 012 345	117 589 824

Audit fees

Current year subscription / fee	6 164 172	5 560 972
Amount paid - current year	(5 139 429)	(5 560 972)
	1 024 743	**-**

PAYE and UIF

Current year subscription / fee	53 492 974	50 503 446
Amount paid - current year	(53 492 974)	(50 503 446)
	-	-

Pension and Medical Aid Deductions

Opening balance	(142 425)	(148 756)
Current year subscription / fee	67 801 273	44 728 985
Amount paid - current year	(67 801 273)	(44 722 654)
	(142 425)	**(142 425)**

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	**Outstanding less than 90 days**	**Outstanding more than 90 days**	**Total**
Councillor Thokoane	3 358	-	3 358
Councillor Sihkangu TL	1 350	-	1 350
Councillor Nchabeleng TL	521	-	521
Councillor Matsetela ML	-	15 288	15 288
	5 229	**15 288**	**20 517**

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the municipal council and includes a note to the consolidated annual financial statements.

The municipality has deviated from normal supply chain processess with transactions to the value of R 5 064 646. The transactions were duly reported to council and subjected to investigation by council commitee.

47. Budget differences

Material differences between budget and actual amounts

47. Budget differences (continued)

The excess of actual expenditure over the final budget of 6% was incurred. The following are explanations for material variances between budgeted and actual amounts.

N1 - The variance on revenue is mainly due to the fact that new billing areas were only billed in May 2018

N2 - The positive variance on interest on debtors is due to poor collection rate due to capacity within debt collection unit and the fact that the service provider contract ended in September 2017

N3 - The positive variance on other income is due to writting back of the outstanding provision for landfill rehabilitation costs as the landfill was transferred to the local municipality

N4 - Slow spending on capital projects funded through conditional grants resulted in less amount transferred to revenue as there are unspent grants at year end

N5 - Five percent increase from budget on employee costs is mainly due to increase costs of travelling and overtime

N6 - The capiatlisation of R210m and R188m worth of WIP resulted in increased expenditure on depreciation.

N7 - The variance on debt impairment is a result of poor collection rate due to limited capacity within the credit control and debt collection unit.

N8 - The variance on bulk purchases is as a result of new billings received from private service provider during the year and the fact that DWS invoioces were only received in 2017/18 and was not budgeted for.

N9 - The savings on contracted services (VIP) is due to the fact that the municipality did not introduce new projects in the 2017/18 financial year but concentrated on completing VIP units that were not completed in the previous financial year.

N10 - The increase on general expenditure is due to costs for water tankering, professional fees (VAT recovery), security costs and fleet management costs that were spending above budget.